[1] Define Accounting

→ Accounting is a system that identifies, records, and summarizes financial information so people and organizations can make decisions.

M1

"Accounting"

1/ Q) Information system (✓ Why? → 1. Why accounting is considered as an information system?

⇒

* It has inputs (data collection): Transactions (sales, purchases, payroll) are like raw data fed into the system.

* It processes the data: The accounting process recording, classifying, summarizing turns those raw figures into structured information.

* It stores the information: Ledgers, journals, and databases keep financial records for reference, compliance, and future analysis.

* It produces outputs (reports): Financial statements, budgets and performance reports are the 'output' people use to make decisions.

* It supports decision-making: Just like an IT system helps managers analyze trends, the accounting system helps them decide whether to expand, cut costs, invest or borrow.

2. Write the objectives of accounting

(i) ~~Main~~ Objectives of Accounting :

* Primary Objectives

→ Systematic Recording of Transactions

→ Determining Profit or Loss

→ Determining Financial Position

→ Providing Information to Users

* Secondary objectives

→ Compliance with Laws & Regulations

→ Assisting Management

→ Control over Assets

→ Facilitating Decision - Making.

2(ii) Why accounting is considered as business language?

⇒ Accounting is a structured and rule-based system through which businesses convey their financial reality to anyone who needs to understand it to just like a spoken language conveys ideas between people.

3. Explain necessity of accounting in business operations?

⇒

Necessity of Accounting

→ **Legal Requirement**: Many countries mandate accounting records for tax & regulatory purposes.

→ **Measurement of Performance**: Shows profitability, efficiency, and progress over time.

→ **Financial Planning & Control**: Helps in budgeting, forecasting and monitoring actual performance.

→ **Credibility with Stakeholdero**: Investors, banks, and suppliers rely on proper accounts before extending credit or inverting.

→ **Historical Record for Reference**: Past data helps compare results & improve future strategies.

→ **Baris of for Auditing**: Proper records allow independent verification of accuracy.

4. How different users take decision based on accounting information system?

⇒ Different users make decisions based on accounting information in various ways. Owners and managers use it to judge profits, control costs, and plan future actions. Banks, suppliers, and other outsiders use the information to decide whether the business is stable enough to give loans or offer credit.

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Q. ~~(c)~~ How different users of accounting information ~~system~~ system take decisions based on accounting information system?

* Explain in perspective to internal & external user.

⇒ Two types of users of accounting:

① Internal Users

② External Users.

<u>Internal Users</u>

* <u>Managers</u>: They plan, organize, and run a business. They are marketing managers, production supervisors, finance directors and company officers.

Employees: They assess the stability and profitability of the Organization which affects job security and wages.

(b) External Users

These are most common in external

* Investors (owners): They are accounting information to decide whether to buy, hold or sell ownership shares of a company.

* Creditors: They are use accounting information to evaluate the risks of granting credit or lending money.

* Suppliers: To determine whether the company can pay for goods and services supplied.

* Customers: To check the stability of the company, especially for long-term contracts or warranties.

* Government and Tax Authorities: To ensure compliance with tax laws and regulations.

* Regulatory Agencies : To ensure that companies comply with laws and maintain transparency.

* General Public : To understand the company's impact on the economy and community.

~~(i)~~ Fo. Various Types of Accounting

1. **Financial Accounting** : Prepares financial statements for outsiders like investors and regulators. Follows rules like GAAP/IFRS.

2. **Management Accounting** : Gives information to managers for planning, control, and decisions. Future-focused & flexible.

3. **Cost Accounting** : Finds and controls production costs. Helps in pricing, budgeting and cost saving.

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4. **Auditing** :- Checks financial records to ensure accuracy & compliance.

5. **Forensic Accounting** : Investigates financial crimes like fraud or money laundering.

6. **Government Accounting** : Manages government money, budgets & ensures public accountability.

7. **Project Accounting** : Records & monitors costs and profits of specific projects.

M2

Principle of Accounting

* Assumption of Accounting

- **Economic Entity Assumption**

The business and the owner are treated as two completely separate persons in accounting. Their money and activities must never be mixed together.

example

1. Owner puts $10,000 into the business
   → counted as business money, not personal.

2. Business buys furniture for $2500
   → that is business expense, recorded in business accounts.

3. Owner uses $800 for personal vacation
   → not recorded in business account, because it's personal.

• **Going Concern Assumption:** In accounting, we assume that the business will continue to operate in the future and will not shut down soon. This is called the GCA.

Because of this:

* Assets are recorded based on their long-term value, not liquidation value.

* Depreciation and amortization policies

* Financial Statements are prepared.

• **Monetary Unit Assumption:** In accounting, we record all business activities using money as a common unit, because money is the easiest and most useful way to measure and compare all transactions.

Example

1. Business purchases equipment for $25000.
2. A business reports annual sales revenue of $2.5 millio
3. Manager's skill level improves after training.
4. An appointment letter is provided to a new employee.

- **Periodicity Assumption** :- A business assumes it can break its activities into fixed time periods, like months, 3-month quarters, or one year to prepare financial reports.

- **Accrual Basis Assumption** :

* Accrual Basis → Record income & expenses when they happen, not when cash is received or paid.

* Cash Basis → Record income only when cash comes in, and expenses only when cash is paid.

2. Principles

Past/original price

1. Measurement Principles

* Historical Cost ↔ Company records assets at the price they originally paid when they bought it.

example

1. If you buy a machine for $10,000, you always show it as $10,000 in the accounts.

Present / market price

* Fair Value → Company records the asset at the current market price to the amount you'd get if you sold the asset or paid to settle the liability today.

example

1. If that same machine is now worth $8,000 in the market, fair value means you report $8,000.

2. Full Disclosure Principle : A company must share all important information in its financial statements so to users can make good decisions.

Example

* Notes to the Financial Statements

when the obligation is fulfilled.

3. Revenue Recognition Principle : Revenue is recorded when the company delivers goods or services, not when the money is received.

Example

1. Customer asks for a product → No revenue yet.
2. Company delivers good worth $5,00
   → Rvenue = $5,000 recorded now.

4. **Expense Recognition Principle**: states that expenses should be recorded in the same accounting period as the revenues they help generate. It's also called the Matching Principle.

Example

* A company pays $1,000 for raw materials in March.

3/ Golden Rule of Accounting

1. Personal Accounts :

Rule : Debit the Receiver, Credit the Giver

Personal accounts relate to individuals, firms, or organizations.

Example

Paid Tk. 5000 to Rahim (a person).

- Rahim's A/c (Dr.) 5000 → He is the receiver of money.
- Business (Cash) A/c (Cr.) 5000 → We are giving cash.

2. Real Accounts :

Rule : Debit what comes in, Credit what goes out.

Real accounts relate to assets, properties or things we can see and touch.

Example

Purchased furniture for Tk. 15000 cash.

- Furniture A/c (Dr.) 15000 → Furniture came in.
- Cash A/c (Cr.) 15000 → Cash went out.

3. Nominal Accounts

Rule: Debit all Expense and Losses, Credit all Incomes and Gains.

Nominal accounts relate to expenses, losses, incomes and gains.

Example

Paid Salary Tk. 20000.

- Salary A/C (Dr.) 20000 → Expense (goes on debit side)
- Cash A/C (Cr.) 20000 → Cash goes out.

Received Commission Tk. 10000.

- Cash A/C (Dr.) 10000 → Cash comes in.
- Commission Income A/c (Cr.) 10000 → Income (goes on credit side)